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William B. Smith

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## INSURANCE AND STATE RESPONSIBILITY\*

WILLIAM B. SMITH, M.D.†

It is a privilege for me to try to add my bit to the investigation of this constantly perplexing problem of flying and insurance. Last year, we were most fortunate in hearing from an Actuary of great reputation, Mr. James Hoskins, who gave us a paper full of information and statistically complete. I am sure that Mr. Hoskins added much to our storehouse of information. This paper today is free of statistics. The topic as I see it is not one that requires statistics.

I am sure that we all well recognize the important roll that insurance plays in the great drama of aviation progress. I feel, however, that a great many of us, who are so enthusiastic about flying, allow ourselves to be blinded by our future hopes as to the extent to which the popularity of flying may go. In 1930, I added my first contribution to the literature on the subject of insurance and aviation and since that time I have contributed on several occasions. In 1930 it was distinctly my feeling that insurance companies and the proponents of flying would arrive at a clearer understanding of the future of the industry, as viewed at that time, if they would consider aeronautics in the same category as the marine industry. Flying has so many characteristics in common with ships and shipping that it still is my opinion that there are none of us who will see the industry on the same basis as that of the automobile.

In writing this paper, I have adhered rather closely in my remarks to the life rather than the casualty field, for it is the life field about which I am better informed. Furthermore, it is the insuring of passengers and pilots at favorable rates that will advance the progress of aviation. Also, by sticking to one field, I am sure that my points will be clearer and, after all, the same lessons can be applied to any field of aviation insurance.

The subject is exceedingly difficult, due to the fact that the public and the insuring companies are not accustomed to thinking in terms of state responsibility and insurance. It would seem to me, in view of the space given on this program to the insurance

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† Assistant Medical Director, Connecticut Mutual Life Insurance Company; Chief Flight Surgeon, Department of Aeronautics, State of Connecticut.

angle of flying and the space given last year at Hartford to the same subject, that the Federal and State regulatory bodies must have some responsibility to the insurance fraternity. Frankly, I cannot see this responsibility as a direct one but, rather, a reflection of that which the state owes to the public. It is a vicious cycle in which state responsibility is found. The state makes flying safer, which in turn gives a better mortality experience, whereupon the insurance company makes the rates lower, which then encourages the public to fly more, etc. It then becomes necessary that the state assume greater responsibility and so around it goes and where it stops will be somewhere far in the future.

For the sake of clarity in the discussion of this subject, I feel that there are two groups to be considered insofar as insurance companies are concerned. First, there are the aircraft and pilot which are engaged in the traffic of interstate commerce. In this group also is to be found the passenger who travels on the regular scheduled airlines. This paper, however, is not concerned with this group, for this is a Federal responsibility.

The second group would embrace the pilot who flies his own plane or, in other words, the pilot of all classes of license up to the commercial grades and those of the commercial grades that are not engaged in regular interstate traffic. The flying public and aircraft in this group are more or less regulated locally; that is, by the states in which they are based. It is this group with which this paper deals.

It might be news to some of you that insurance companies do not do business in all states. There is a good reason for this, namely, that conditions existing in those states are such that the mortality rate is too high. This poor mortality rate in many instances is due to the lack of sufficient and efficient state regulation of the business, health and social activities of its citizens. Therefore, the state is really responsible for the difficulty encountered by its citizens in obtaining insurance and certainly this is a real state responsibility.

It matters not whether we are talking about the regulation of business, health or flying; as I see it, the responsibility is the same. It so happens that this paper deals with the regulation of flying. The responsibility, of course, is to see to it that its flying citizens are sufficiently well regulated that as a group they may be expected to present a normal mortality when assumed as risks by the insurance fraternity.

The insuring companies are not particularly interested in

the type of ship in which one of their insured may fly, but they are exceedingly interested in the regulations that govern the inspection and care of that ship. In the first instance it is the Federal Department which puts its okay on the type of ship, but it should be the State Department which vouches for its inspection and care.

It matters very little to the insurance companies where their insured may fly, but they are particularly interested in the regulations governing their training, flying and supervision where they are based. If they fly far afield they do so over well regulated, lighted and designated airways, but their training and the habits which they have developed and their physical-mental status is all important no matter where they fly and should be the responsibility of the state where they are based.

We cannot pass on without considering a third item, namely, the aviation rider. As some of you may know, most anyone who can present acceptable evidence of insurability from all other angles may receive a policy from a company which carries as a part of the policy or attached to it a clause which eliminates the responsibility of the company if the insured meets his death through aeronautics. There is also a second type of rider, similar to the one just stated, except that the company assumes responsibility if the assured loses his life through aeronautics when travelling as a fare-paying passenger over regular scheduled airlines. The citizens of some states, however, find that they cannot avail themselves of the opportunity of the partial rider, which is the second one I describe, because the courts of their state will not recognize the legality of a rider. Hence, the insuring companies simply issue a policy which excludes all aeronautical activities. Again the flying citizen of some states experience great difficulty in receiving insurance at all because the courts of their states have ruled against any type of a rider.

It has been my privilege to discuss this question of state responsibility with some of the outstanding underwriters in the life field who have shown a great deal of interest in the topic. They feel that the state has a decided responsibility in making it easier for its flying citizens to receive insurance and, in simple language, it is this: the more stringent the laws and regulations surrounding flying in that state the more readily are they prepared to quote favorable rates to its flying citizens. This is horse sense, because all insurance rates are based on experience; and if the law is stringent enough to result in a favorable flying experience in a

given state the insuring companies will be ready to take advantage of that favorable experience.

I ask your pardon in using Connecticut and its Department of Aeronautics as an example, but I am prompted to do so because several of the underwriters with whom I have discussed this topic have suggested that I use that Department for this purpose. It is their feeling that it is a fair example and especially so when we are informed through an outstanding actuarial source that after a careful study of the crash record in that state it was found that such a record is about 23% better than the crash record for the country as a whole. How has the above record been obtained? It is my opinion that in large part it has been obtained through the auspices of a department which first, is made up of a well-trained, long standing and efficient staff; second, is free from politics; and third, licenses, polices and supervises flying in the third smallest area in the United States.

Regarding the organization, it is ten years old and a number of its staff have been with the department since its inception. Most all of its members have been with the Department over five years. Every member of the Department has been especially trained for the duties which are his. The members of the Bureau of Personnel Inspection, which is a part of the Department and which is responsible for the mental-physical status of the state's flying people are all especially trained for the duty of physical selection and supervision.

With regard to the matter of politics, the personnel has been unhampered by the changes in administration.

Concerning the matter of territory, I believe that this is one of the most important factors to consider. The staff of the Department literally knows every square inch of the state. They have formed many contacts outside of flying. They get about the state frequently. If one of the state's flying citizens should indulge in minor or major infractions of the law, it takes very little time for this information to seek its way back to the Commission. If a ship happens to be damaged, or if one of the state's licensees happens to indulge too regularly and too much in alcohol, or in other ways breaks the regular moral code to such an extent that it interferes with flying, these things are brought with promptness to the attention of the Commissioner and his Chief Flight Surgeon. These matters, as well as all infractions of the law are promptly investigated and disciplinary measures instituted. Such investigation is not a long drawn out procedure.

In October this year I heard the Honorable Fred D. Fagg, Jr., in New York while addressing the annual meeting of the Aero Medical Association, state that when the Federal Department licensed a ship this meant that the ship at that time was airworthy. What the condition of that ship is two weeks thereafter, or two months, is not the knowledge of the Bureau of Air Commerce and the care of the ship is left largely to the discretion of its owner or pilot. Mr. Fagg gave as his reasons for this condition the lack of personnel, which we know only too well makes it difficult to successfully carry out any highly technical plan. Licensing a ship in Connecticut, however, means that it is not only airworthy at the time of licensing, but the state will see to it that every thirty days it will be inspected so long as it is based in the state. When any individual is granted a flying license in Connecticut this does not end the matter for the next six or twelve months. The vigilance which I have above described makes it possible for the Department to be reasonably informed at all times concerning the physical and mental status of the flying people over which it has jurisdiction.

I was very much interested to learn from my underwriting friends while studying this question of state responsibility that they are interested in the educational program that a state may carry out in the furtherance of safe flying. It might interest you to know that I questioned several of our outstanding underwriters and actuaries on this matter of promotion and education. Their expressions were rather varied, but there seemed to be a preponderance of thought that a state licensing and policing department should not be directly concerned with promotion for such a combination might tend to influence members of the staff to cut corners. While I do not believe this is a matter of major concern, still I feel that my investigation of this subject would not be complete until I had mentioned this to you.

I thought it would be interesting to know just how important the underwriters considered state regulation, so I discussed this matter with several of them and I was quite surprised to find that they all had about the same ideas, namely, that the more efficient the state regulation the more inclined were they to give the breaks in underwriting to the citizens of such states where these conditions exist. One underwriter told me that the importance of state regulation is going to become greater and greater and made the suggestion that all states should have good state regulation of flying. Then he further stated that the next very necessary step would be the closest kind of cooperation between the states with an en-

deavor to set up such regulations as would make flying the safest thing possible. I believe this is the challenge to our own Association. Although I did not tell this underwriter that this was not a new idea to us, still I was very glad to have him endorse without my solicitation a program which we already have had in mind. This is really a flash-back from our topic this morning for, after all, the state responsibility and the aviation insurance problem really becomes the responsibility of this Association.

Due to my inability to be poetic, I cannot tell you in the language of the bard what the state responsibility is to aviation insurance. I can simply state the facts: Efficient regulation; safer flying; better mortality experience; lower rates; more flying.